



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE TRANSPORTATION CABINET**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 1999

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EXECUTIVE SUMMARY

Report of the Auditor of Public Accounts Audit of the Transportation Cabinet

Made as Part of the Statewide Single Audit of the Commonwealth of Kentucky For the Year Ended June 30, 1999

BACKGROUND:

The Federal Single Audit Act of 1984, subsequent amendments, and corresponding regulations, require the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Transportation Cabinet.

EXPENDITURES:

The Transportation Cabinet expended federal awards in the following manner:

- \$385,163,943 in cash from 3 federal grantors

FINDINGS:

Financial Statement Accounts

An outside CPA firm conducted the financial statement audit, which disclosed no reportable audit findings.

Federal Awards and Schedule of Expenditures of Federal Awards - *Unqualified Opinion*

Compliance:

No instances of noncompliance.

Internal Control Over Compliance:

One (1) Reportable Condition, which was not considered a material weakness.

Three (3) Other Matter comments.

Schedule of Expenditures of Federal Awards - *Qualified Opinion*

GENERAL TOPICS OF REPORTABLE CONDITIONS:

- Incomplete transaction documentation

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INTRODUCTION

TRANSPORTATION CABINET
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999

Introduction

The Auditor of Public Accounts, acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Public Law 104-156, referred to as the Single Audit Act Amendments of 1996, is effective for fiscal years beginning after June 30, 1996.

Schedule of Expenditures of Federal Awards

This report contains the Schedule of Expenditures of Federal Awards for the Transportation Cabinet. The schedule is organized by federal grantor (CFDA number). The Notes to the Schedule of Expenditures of Federal Awards follows the Schedule to provide more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

Since not all state agencies use the Federal Grant Accounting Subsystem of the Statewide Accounting and Reporting System (STARS), the Auditor of Public Accounts requested the Transportation Cabinet to prepare worksheets of federal financial assistance. The source of these worksheets included STARS, agency accounting systems, agency manual records, etc. The Transportation Cabinet was also asked to reconcile the worksheets to STARS and to federal grantor reports. These worksheets were compiled into the accompanying Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three parts, the Summary of Auditor's Results, Financial Statement Findings and Questioned Costs, and Federal Award Findings and Questioned Costs. The Summary of Auditor's Results summarizes the audit opinions on the Financial Statements, Schedule of Expenditures of Federal Awards, Internal Control Over Financial Reporting, Internal Control Over Compliance for Federal Awards, and Compliance for Federal Awards. Each audit finding number and the audit finding's classification (as reportable, material, or other matter) is provided as part of the audit opinion summary. Major programs audited and Type B programs audited as major are also listed on the Summary of Auditor's Results. The second part is the Financial Statement Findings and Questioned Costs. This part lists all of the audit findings related to the financial statements. The third part, the Federal Award Findings and Questioned Costs, lists all findings related to federal awards. Generally, the state agency, CFDA and program, federal agency, pass-through agency, and the compliance area the finding relates to are presented. In both parts two and three, reportable conditions are presented first, then material weaknesses/noncompliances, followed by other matters.

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 1998 (as well as any previous findings which have not been resolved) are reported in the agency's Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 1999.

**TRANSPORTATION CABINET
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Summary Schedule of Prior Audit Findings (Continued)

If the Auditor of Public Accounts determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material, or other matter. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid. If a finding has been reclassified from material to reportable for instance, the finding will appear in the material finding section of the Summary schedule and the comment will indicate the reclassification.

Audit Approach

Our audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of the statewide single audit for the year ended June 30, 1999, included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Transportation Cabinet, to the extent necessary to consider and test the internal accounting and administrative control systems as required by generally accepted government auditing standards, the Single Audit Act Amendments of 1996, and the provisions of OMB Circular A-133; and
- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that the Transportation Cabinet administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth's general-purpose financial statements.

The Auditor of Public Account's office conducted the audit of the internal control, focusing on the following objectives:

- Determining if the Transportation Cabinet has an internal control to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

**TRANSPORTATION CABINET
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report

CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CPA	Certified Public Accountant
FHWA	Federal Highway Administration
FY	Fiscal Year
KAR	Kentucky Administrative Regulations
KRS	Kentucky Revised Statutes
LLP	Limited Liability Partnership
NA	Not Applicable
OMB	United States Office of Management and Budget
TC	Transportation Cabinet
U.S.	United States

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TRANSPORTATION CABINET
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1999

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE		PASS-THROUGH GRANTOR'S #	EXPENDITURES CASHNONCASH	
<u>U.S. Department of Transportation</u>				
Direct Programs:				
20.106	Airport Improvement Program	NA	\$ 252,347	
20.205	Highway Planning And Construction (Note 2) (Note 3)	NA	374,609,798	
20.218	National Motor Carrier Safety	NA	1,825,253	
20.308	Local Rail Freight Assistance (Note 4)	NA		
20.505	Federal Transit-Metropolitan Planning Grants (Note 5)	NA	249,086	
20.507	Federal Transit-Formula Grants (Note 5)	NA	3,453,286	
20.509	Formula Grants for Other Than Urbanized Areas (Note 5)	NA	3,578,753	
20.513	Capital Assistance Programs For Elderly Persons and Persons with Disabilities (Note 5)	NA	898,215	
Passed-Through From Department of State Police:				
20.600	State and Community Highway Safety (Note 4)	Various		
<u>U.S. Department of Energy</u>				
Passed-Through From Natural Resources and Environmental Protection Cabinet:				
81.041	State Energy Program (Note 4)	MA 19279		
<u>U.S. Federal Emergency Management Agency</u>				
Passed-Through From Department of Military Affairs:				
83.544	Public Assistance Grants	FEMA-1163	297,205	
Total Transportation Cabinet			\$ 385,163,943	

See Accompanying Notes To The Schedule Of Expenditures Of Federal Awards.

**TRANSPORTATION CABINET
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999**

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule – OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in that Circular, “Federal financial assistance “ . . . means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals . . . ” It includes awards received directly from federal agencies, or indirectly through other units of state and local governments. Accordingly, the accompanying Schedule includes the cash federal financial assistance programs; the Transportation Cabinet had no noncash federal financial assistance programs for the year ended June 30, 1999.

Reporting Entity – The Transportation Cabinet is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth of Kentucky entity for financial reporting purposes. The accompanying Schedule of Expenditures of Federal Awards of the Transportation Cabinet presents only that portion of the federal financial assistance of the Commonwealth of Kentucky that is attributable to the transactions of the Transportation Cabinet.

Basis of Accounting – The cash expenditures on the accompanying Schedule of Expenditures of Federal Awards are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, “. . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth’s general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the Schedule of Expenditures of Federal Awards may not be directly traceable to the general-purpose financial statements in all cases.

**TRANSPORTATION CABINET
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-agency Activity – Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Transportation Cabinet's Schedule of Expenditures of Federal Awards:

- (a) Federal moneys may be received by one state agency (primary state agency-recipient) and passed through to another state agency (secondary state agency-subrecipient) where the moneys are expended. This inter-agency activity is reported in the Schedule of Expenditures of Federal Awards as follows:
 - Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the Transportation Cabinet's schedule excludes federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedule as an expenditure of that state agency.

- (b) Federal moneys received by the Transportation Cabinet and used to purchase goods or services from another state agency are reported in the Transportation Cabinet's schedule only as an expenditure.

Note 2 – Type A Program

Under the provision of OMB Circular A-133, federal programs must be defined as Type A or Type B programs. For the Statewide Single Audit of the Transportation Cabinet, a Type A program must have expended over \$12 million. All other programs are Type B programs. The Transportation Cabinet had one cash program that met the Type A major program definition for the year ended June 30, 1999:

CFDA #	Program Title	Expenditures
20.205	Highway Planning and Construction	\$ 374,609,798

**TRANSPORTATION CABINET
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Note 3 – Highway Planning and Construction Program (CFDA # 20.205)

The information reported for this program represents the activity of all open projects during the year ended June 30, 1999. These projects were funded from several apportionments. Apportionment refers to federal statutorily prescribed division or assignment of funds. The expenditures reflected on this Schedule of Expenditures of Federal Awards include expenditures for advance construction projects which are not yet under agreement with the Federal Highway Administration.

Program Income - The Highway Planning and Construction Program earned program income of \$230,619 in the year ended June 30, 1999. This income was earned in the Right-of-Way phase through the sale and rental of real property. Income earned in this manner was classified as a negative expenditure resulting in a reduction to federal expenditures for the current year.

Prior Year Refunds - Expenditures for the Highway Planning and Construction Program were shown net of any prior year refunds, resulting from a reimbursement of prior year expenditures. Prior year refunds totaled \$1,203,123 for the year ended June 30, 1999.

Note 4 – Zero Expenditure Program

These programs had no expenditures during the year ended June 30, 1999. They included programs with no activity during the year such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

Note 5 - Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients:

CFDA #	Federal Program Name	Amount Sent
20.505	Federal Transit – Metropolitan Planning Grants	\$ 249,086
20.507	Federal Transit - Formula Grants	3,453,286
20.509	Formula Grants For Other Than Urbanized Areas	3,578,753
20.513	Capital Assistance Programs For Elderly Persons And Persons With Disabilities	898,215
	Total	<u>\$ 8,179,340</u>

REPORT ON COMPLIANCE AND INTERNAL CONTROL



Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
James C. Codell, III, Secretary
Transportation Cabinet

Report On Compliance With Requirements Applicable
To Each Major Program And On Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Transportation Cabinet, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. The Transportation Cabinet's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Transportation Cabinet's management. Our responsibility is to express an opinion on the Transportation Cabinet's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Transportation Cabinet's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Transportation Cabinet's compliance with those requirements.

In our opinion, the Transportation Cabinet complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

To the People of Kentucky

Honorable Paul E. Patton, Governor

James C. Codell, III, Secretary

Transportation Cabinet

Report On Compliance With Requirements Applicable To Each Major Program And

On Internal Control Over Compliance In Accordance With OMB Circular A-133

And On The Schedule Of Expenditures Of Federal Awards

(Continued)

Internal Control Over Compliance

Management of the Transportation Cabinet is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Transportation Cabinet's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal controls used in administering federal financial assistance did not include certain controls relating to the Transportation Cabinet. The consideration of these controls was made by other auditors, whose reports thereon have been furnished to us, and our report presented herein, insofar as it relates to the Revenue Cycle, Purchases/Disbursements, and Payroll Cycle, is based solely or partly on the reports of the other auditors.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Transportation Cabinet's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 99-TC-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe none of the reportable conditions described above is a material weakness. However, we noted other matters involving internal control over compliance, which we have described to management of the Transportation Cabinet in the accompanying Schedule of Findings and Questioned Costs of this report.

To the People of Kentucky

Honorable Paul E. Patton, Governor

James C. Codell, III, Secretary

Transportation Cabinet

Report On Compliance With Requirements Applicable To Each Major Program And

On Internal Control Over Compliance In Accordance With OMB Circular A-133

And On The Schedule Of Expenditures Of Federal Awards

(Continued)

Schedule Of Expenditures Of Federal Awards

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1999, and have issued our report thereon dated December 30, 1999. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards of the Transportation Cabinet is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the Commonwealth of Kentucky's general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Commonwealth of Kentucky's general-purpose financial statements.

As described in Note 1, the Schedule of Expenditures of Federal Awards of the Transportation Cabinet is intended to present only that portion of the expenditures of federal awards of the Commonwealth of Kentucky that is attributable to the transactions of the Transportation Cabinet.

The general-purpose financial statements of the Commonwealth of Kentucky are prepared on an accrual/modified accrual basis of accounting. However, as described in Note 1, the Schedule of Expenditures of Federal Awards of the Transportation Cabinet is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the Schedule of Expenditures of Federal Awards is not intended to present the expenditures of federal awards in conformity with generally accepted accounting principles.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the Schedule of Expenditures of Federal Awards of the Transportation Cabinet is fairly stated, in all material respects, in relation to the Commonwealth of Kentucky's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork complete –

May 15, 2000

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth of Kentucky’s general-purpose financial statements as of and for the fiscal year ended June 30, 1999. The Transportation Cabinet was not included in our audit procedures of the general-purpose financial statements. The Transportation Cabinet was audited by an outside CPA firm, whose report was furnished to us, of which the results were included in the general-purpose financial statements.

Internal Control Over Financial Reporting: The Transportation Cabinet’s financial statement audit was performed by the outside CPA firm PricewaterhouseCoopers LLP.

Compliance: The Transportation Cabinet’s financial statement audit was performed by the outside CPA firm PricewaterhouseCoopers LLP.

Federal Awards And Schedule Of Expenditures Of Federal Awards

Compliance: We have issued an unqualified opinion on the Transportation Cabinet’s compliance with the requirements applicable to the Highway Planning and Construction Program.

Internal Control Over Compliance: Our consideration of the Transportation Cabinet’s internal control over compliance disclosed one reportable condition. We do not believe that this condition constitutes a material weakness. In addition, our consideration of the Transportation Cabinet’s internal control over compliance disclosed three other matter conditions.

Schedule of Expenditures of Federal Awards: We have issued a qualified opinion on the Transportation Cabinet’s Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with generally accepted accounting principles as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth’s general-purpose financial statements taken as a whole.

Identification Of Major Program Audited

OMB Circular A-133 defines a major program as “a Federal program determined by the auditor to be a major program in accordance with section __.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section __.215 (c).” Section __.520 states, “The auditor shall use a risk-based approach to determine which Federal programs are major programs.”

The following is a list of Type A programs audited:

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>
20.205	Highway Planning and Construction	\$374,609,798

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)

Dollar Threshold Used To Distinguish Between Type A And Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B Programs was \$12,000,000.

Auditee Qualified As Low-Risk Auditee

The Commonwealth of Kentucky did not qualify as a low-risk auditee.

SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

There were no reportable findings from Transportation Cabinet’s financial statement audit conducted by PricewaterhouseCoopers LLP.

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Compliance:

FINDING 99-TC-1: The Division Of Right Of Way Should File All Real Property Deeds In The Project Parcel Files Timely

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning And Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Real Property Acquisition and Relocation Assistance

Amount of Questioned Costs: None

Procedures are not adequate to ensure that all deeds for real property are filed in the parcel files in the Right of Way file room. This comment has been an “other matter” comment in the audit years FY 96, FY 97, and FY 98.

During our audit testing of the Acquisition of Real Property for Division of Right of Way we noted the following problem:

- Of the 40 parcel files tested, 15 files were missing the deeds that should have been present. These 15 deeds were later found but were not found in the parcel files when the audit test was conducted, which was more than 8 months after the close of the fiscal year in which the parcel purchases were made. In the previous audit there were 9 such occurrences in the 40 files tested.

Deeds that are lost or mislaid for any period of time affect the Cabinet’s ability to provide the best and most effective controls over rights to acquired properties. Missing deeds may go years without being detected as it may take years before the Right of Way project is completed and then reviewed before being archived.

23 CFR § 710.305 “Support for Claims” Part (b) “Document Availability” states that “All plats, appraisals, options, purchase agreements, title evidence, negotiation records, deeds . . . relative to the acquisition of the right-of-way shall be available for inspection at reasonable times by authorized representatives of the FHWA and other authorized federal representatives.”

Recommendation

We recommend that the Division of Right of Way implement stronger internal controls to assure the proper filing of the deeds in the parcel files in a timely manner so that the State’s property rights are safeguarded.

As this comment has been made in the past without adequate resolution of the problem, new procedures may be necessary to adequately monitor compliance with guidelines.

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Reportable Conditions Relating To Internal Control And/Or Compliance(Continued)

FINDING 99-TC-1: The Division Of Right Of Way Should File All Real Property Deeds In The Project Parcel Files Timely (Continued)

Management's Response and Corrective Action Plan

The Cabinet agrees with the finding and recognizes the importance of strong internal controls for the maintenance of the right of way files. However, the problem has largely been the result of a heavy workload combined with staffing limitations. The Division of Right of Way & Utilities is attempting to obtain additional staffing for the filing function. The hiring of additional staff is the responsibility of the Division's Director. This effort will begin immediately and its is planned that staff will be hired no later than December 31, 2000 for this function.

Other Matters Relating To Internal Control And/Or Compliance:

FINDING 99-TC-2: The Division Of Right Of Way Should Retain Proper Documentation For All Relocation Project And Parcel Files

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning & Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: None

Compliance Area: Relocation Assistance

Amount of Questioned Costs: None

Procedures are not adequate to ensure that all required documents for Relocation are filed in the project and parcel files in the Relocation filing cabinets.

During our audit testing of Relocation for the Division of Right of Way we tested 40 parcel files out of 18 project files. Based upon either the 18 project files or the 40 parcel files we noted the following problems:

- Of the 18 projects tested, one project was missing the Market Sales Analysis. This missing document affected 2 parcel files, which were part of this project.
- Of the 40 parcel files tested, 3 parcel files were missing the Moving Claim Sheet (TC 62-99)
- Of the 40 parcel files tested, 1 parcel file was missing the Move Claim (Non Residential) Sheet (TC 62-57)
- Of the 40 parcel files tested, 1 parcel file was missing the Certified Inventory Form (TC 62-68)
- Of the 40 parcel files tested, 1 parcel file was missing the Inspection Sheet of Replacement Dwelling (TC 62-67)

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Other Matters Relating To Internal Control And/Or Compliance: (Continued)

FINDING 99-TC-2: The Division Of Right Of Way Should Retain Proper Documentation For All Relocation Project And Parcel Files (Continued)

Without properly documenting all steps in the Relocation process, the Right of Way Division cannot provide reasonable assurance that all necessary steps were followed and completed in order to be in compliance with 49 CFR 24.9 of the federal regulations and the agency's Relocation Procedure Manual (specifically chapters 3 and 4). This constitutes a lack of completeness, which indicates a control weakness.

Proper Internal Controls dictate that all procedures be properly documented in the project and parcel files.

49 CFR § 24.9 "Recordkeeping and reports" states, "The Agency shall maintain adequate records of its acquisition and displacement activities in sufficient detail to demonstrate compliance with this part."

Market Sales Analysis: Relocation Procedures Manual, Chapter 4 Section 62-04.0600 "Replacement Housing Payments for Owner Occupants of 180 Days or More Who Purchase" part C states, "Regardless of whether or not the evaluator determines an adjustment is required, a memorandum should be sent to the Central Office and a copy kept in the district relocation files."

TC 62-99 and TC 62-68: Relocation Procedures Manual, Chapter 3 Section 62-03.0200 "Moving Payments To Individuals and Families" subsection .0220 states, "Upon completion of the move, the Relocation Agent will prepare and submit to the Central Office for payment, the Payment Summary, TC 62-56, Move Claim, TC 62-99, Record of Contacts, TC 62-77, and when applicable the Certified Inventory, TC 62-68."

TC 62-67: Relocation Procedures Manual, Chapter 4 Section 62-04.0300 "Occupancy Provisions" subsection .0310 part A states, "Before making payment to the displaced person(s), the Kentucky Transportation Cabinet must inspect the replacement dwelling and determine that it meets the standards for DS&S housing. . . . In all cases where DS&S inspections are made, Form TC 62-67 will be completed, signed, and placed in the parcel file."

TC 62-57: Relocation Procedures Manual, Chapter 3 Section 62-03.0600 "Miscellaneous Moves" states, "Typically this type move may be handled as a self move by a staff estimate (See Paragraph 62-03.0330)."

Relocation Procedures Manual, Chapter 3 Section 62-03.0300 "Moving and Related Payments to Businesses, Farm Operations or Nonprofit Organizations" subsection .0330 part D states, "The Relocation Agent will also prepare and submit to Central Office for payment, the Payment Summary, TC62-56, Move Claim, TC 62-57, Record of Contact, TC 62-77, the approved Moving Expense Estimate, TC 62-98, and the Certified Inventory, TC 62-68."

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Other Matters Relating To Internal Control And/Or Compliance(Continued)

FINDING 99-TC-2: The Division Of Right Of Way Should Retain Proper Documentation For All Relocation Project and Parcel Files (Continued)

Recommendation

We recommend that the Division of Right of Way's Relocation Section implement stronger internal controls over retaining proper documentation in the project and parcel files to assure the completeness of all files to ensure compliance with 49 CFR 24.9 of the federal regulations and the agency's Relocation Procedure Manual.

Management's Response and Corrective Action Plan

The Division of Right of Way & Utilities agrees with the finding and acknowledges that the documents noted in the finding were not in the files reviewed by the auditor. Staff have thoroughly investigated each reported instance and obtained the missing documents for the files.

The Cabinet recognizes the importance of strong internal controls for the maintenance of right of way files. Accordingly, the Relocation Branch Manager will send a written reminder to the Highway District Right of Way Supervisors about the need for agents to promptly submit required documentation for filing. Additionally, administrative staff in the Relocation Branch is reviewing right of way files to ensure that those files are complete. These actions coupled with the ongoing practice of reviewing file contents prior to archival will assure compliance. It is planned that these actions will be completed by August 1, 2000.

FINDING 99-TC-3: The Federal Billing Branch Should Implement Stronger Internal Control Over Its Federal Drawdown Procedures To Ensure The Timely Drawing Of Federal Monies

State Agency: Transportation Cabinet
Federal Program: CFDA 20.205 – Highway Planning & Construction
Federal Agency: U.S. Department of Transportation
Pass-Through Agency: None
Compliance Area: Reporting
Amount of Questioned Costs: None

As part of our audit of the Transportation Cabinet for FY 99, we tested a random sample of 6 federal drawdowns initiated by the Transportation Cabinet's Federal Billing Branch. During our testing the following problem was noted:

- Of the 6 federal drawdowns tested, 1 drawdown was not requested timely by the Federal Billing Branch.

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Other Matters Relating To Internal Control And/Or Compliance(Continued)

FINDING 99-TC-3: The Federal Billing Branch Should Implement Stronger Internal Control Over Its Federal Drawdown Procedures To Ensure The Timely Drawing Of Federal Monies (Continued)

This problem was noted when the auditor compared the Batch Approval Information Report (PR-20) to the drawdown date on the Weekly Cash Draw Calculation Report (#4430). The Report #4430 comes from FAC telling the Federal Billing Branch what day of the week the drawdown should be requested. The Federal Billing Branch requested the drawdown two days after it should have been requested per the #4430 Report from FAC.

The auditor discussed this discrepancy with both FAC and the Federal Billing Branch. This discrepancy could not be resolved because both FAC and the Federal Billing Branch each stand by the drawdown dates for their own reports.

If the Federal Billing Branch does not request funds to be drawn on the date provided by FAC, it is difficult to maintain a complete and accurate account balance and could possibly result in the loss of interest in the states depository institution in Frankfort.

Proper internal controls dictate that the federal drawdown date provided by FAC corresponds with the actual date funds are drawn by the Federal Billing Branch. The Transportation Cabinet's Federal-Aid Billing Procedures on Concurrent Billing states in part, "The expected reimbursement date is determined by Finance and Administration."

Recommendation

We recommend that the Federal Billing Branch implement stronger internal controls to ensure that all federal drawdowns are requested and deposited on the date specified by the FAC.

Management's Response and Corrective Action Plan

The Cabinet agrees with the finding, however, we feel that this is an isolated instance and that existing internal controls are in place to ensure that federal invoices are processed as required. The single instance of a delay in the billing was a result of the absence of responsible staff. The Federal Billing Branch Manager now has backup staff in place and is continuing to oversee the billing process on an on-going basis.

**TRANSPORTATION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Other Matters Relating To Internal Control And/Or Compliance(Continued)

FINDING 99-TC-4: The Division Of Right Of Way Utilities Branch Should Implement Stronger Internal Controls Over Its Authorization Process To Ensure That All Utility Projects Agreements Are Properly Approved

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning & Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: None

Compliance Area: Activities Allowed or Unallowed: Allowable Costs Cost Principles

Amount of Questioned Costs: None

During our audit of the Transportation Cabinet's Division of Right of Way Utilities Branch we tested 39 Utility Project Agreements for assurance that project agreements were signed by the Utilities Branch Manager. Of those 39 tested, 2 agreements were missing the required Utilities Branch Manager's signature.

Lack of proper authorization on the Utility Agreements by the Utilities Branch Manager may lead to a misunderstanding of agreement terms between the Utility Company and the Utilities Section of the Division of Right of Way. This lack of proper authorization is considered a control weakness.

Utilities Procedure Manual, Chapter 2 Section 69-02.0800 "Execution of Utility Companies' Proposal" states, "After the agreement is returned by the company to the Utilities Section, it is approved by the Branch Manager . . ."

Recommendation

We recommend that the Division of Right of Way's Utilities Section implement stronger internal controls over the authorization process for all Utility project agreements to ensure that they are properly approved by the appropriate personnel.

Management's Response and Corrective Action Plan

The Cabinet agrees with the finding and acknowledges that the Utilities Branch Manager's authorization was not recorded on 2 of the 39 agreements tested. The Cabinet feels these instances were an oversight on the part of the Utilities Branch Manager but also recognizes the importance of strong internal controls over the authorization process for utility project agreements. The Division Director has discussed this matter with the Branch Manager and staff and they have been advised to ensure that proper authorizations are obtained in the future.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

TRANSPORTATION CABINET
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999

Reportable

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<i>(1) Audit findings that have been fully corrected:</i>					
FY 97	97-TC-52	The Transportation Cabinet Should Deposit Sale Proceeds Timely	20.205	\$ 0	The corrective action plan was implemented during FY 99.
FY 98	98-TC-38	The Transportation Cabinet Should Reimburse The Federal Government For Relocation Assistance Payments That Were Incorrectly Billed	20.205	24,000	The corrective action plan was implemented in FY 99. The questioned cost has been repaid in full to the federal government.

(2) Audit findings not corrected or partially corrected:

No findings for this section

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section

(4) Audit finding is no longer valid:

No findings for this section

**TRANSPORTATION CABINET
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Other Matters

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<i>(1) Audit findings that have been fully corrected:</i>					
FY 97	97-TC-2	The Performance Of Compliance Inspectors Who Conduct The In-Depth Reviews Of Wage And Hour Requirements Is Not Being Monitored	20.205	0	Corrective action taken and implemented in FY 99.
FY 98	98-TC-3	The Transportation Cabinet's Division Of Right Of Way Should Maintain Proper Documentation For Reimbursements And Agreements With Local Public Agencies	20.205	0	Our audit testing shows this comment has been resolved in FY 99.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 97	97-TC-4	Deeds For Real Property Acquisition Should Be Recorded At The Courthouse Timely And Immediately Filed In The Right Of Way File Room	20.205	0	Corrective action plan was not implemented in FY 99. The portion of this comment concerning filing of the deeds in the Right of Way file room has been upgraded to reportable See 99-TC-1.
FY 98	98-TC-4	The Transportation Cabinet Should Conduct Inspections And Prepare Progress Reports For Utility Company Projects	20.205	0	Corrective action plan was not implemented in FY 99.
FY 98	98-TC-5	The Transportation Cabinet should Maintain Proper Documentation For Construction Projects	20.205	0	Corrective action plan was partially implemented in FY 99.

**TRANSPORTATION CABINET
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

Other Matters(Continued)

(2) Audit findings not corrected or partially corrected: (Continued)

FY 98	98-TC-6	The Transportation Cabinet's External Audit Branch Should Perform Complete Audits On Utility Company Project Payments	20.205	0	Corrective action plan was not implemented until after June 30, 1999.
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(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section

(4) Audit finding is no longer valid:

FY 97	97-TC-9	Utility Agreements Should Be Pre-audited Before Being Signed	20.205	0	Transportation Cabinet has implemented a corrective action plan in FY 99. The Cabinet has changed the policy. The Utility agreements no longer need to be audited prior to being signed.
FY 98	98-TC-1	The Transportation Cabinet's Division Of Right Of Way Should Resume The Use Of Property Ledgers For Recording Purchases And Sales Of Real Property	20.205	0	This finding is no longer valid. Documentation reflecting the required information is kept in the Right of Way files. There are no statutes to properly support this finding.

